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CONTACT
Scott Kinney, Communication Director, DFI
PH 360.902.0517 skinney@dfi.wa.gov

FOR IMMEDIATE RELEASE:

DFI SETTLES MORGAN STANLEY LAWSUIT

OLYMPIA, WA – The Washington State Department of Financial Institutions announced today that it has reached a settlement resolving an enforcement case against the brokerage firm, Morgan Stanley, and a lawsuit filed by Morgan Stanley against the department. The settlement provides that the firm will implement nationwide changes that will make investors less vulnerable to unnecessary financial losses. DFI anticipates that the firm will enthusiastically pursue its commitments under the agreement.

The case stems from allegations made by DFI in November 2003 that brokers Arun Sardana and Michael T. Moriarty recommended a high-risk investment strategy to certain Microsoft employees in Washington State. It included exercising stock options on margin and investing primarily in technology and telecommunications stocks. The department also alleged that the branch manager, Lorenzo Ascoli, did not reasonably supervise his brokers' high-risk investment strategy. Morgan Stanley filed the lawsuit against the State of Washington after, in the course of negotiations, the two disagreed as to the enforceability of a letter that was negotiated on the side.

Before the lawsuit filed by Morgan Stanley, DFI had alleged that Morgan Stanley's supervision of margin accounts nationwide was inadequate and exposed consumers to a high level of risk. The department had alleged Morgan Stanley was not sufficiently monitoring the suitability of investment advice by its brokers, especially with regard to margin loans and equity concentrations of customer accounts.

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After receiving guidance from the State's Attorney General's Office that the side letter was not enforceable, the department submitted revised language to the firm addressing this issue. Morgan Stanley chose not to accept these changes and instead, sued the state asserting that its proposed consent agreement was binding.

"Negotiating side agreements instead of enforcement orders is a major exception to our approach," commented Director Howell. "We would have preferred taking stronger action against Morgan Stanley. Unfortunately, the management of our securities division at the time proceeded down this path. At a minimum, the terms of a regulatory agency's agreements must be clearly enforceable and available to the public."

Pursuant to the settlement, Morgan Stanley will work to ensure that its supervisors across the nation diligently scrutinize the suitability of margin loans, and monitor the equity concentration of their customer accounts. Morgan Stanley agreed to regular firm-wide reviews of customer margin debt, margin suitability, concentration of equity positions and account values. Morgan Stanley also agreed to provide special training to its brokers on their obligation to recommend suitable investments and the risks inherent in margin loans and equity concentrations.

"These supervisory revisions will result in better oversight of Morgan Stanley customer accounts throughout the country," said Michael Stevenson, Director of the DFI Securities Division. "We will monitor these revisions to make sure that they are implemented in a timely fashion and anticipate a healthy relationship with Morgan Stanley going forward," Stevenson continued.

As part of the settlement, Morgan Stanley agreed to make the following payments: $25,000 to a former Washington client of the two brokers; $75,000 to the not-for-profit Investor Protection Trust (IPT) to be used for projects promoting investor education in the State of Washington; and $100,000 to reimburse DFI's investigation costs.

For further information about the IPT is available at www.investorprotection.org.

A copy of the November 2003 Statement of Charges against Morgan Stanley is available at www.dfi.wa.gov.

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